

AR30



ANNUAL REPORT

1969

File

SUPERTEST PETROLEUM CORPORATION, LIMITED



This Service Centre on the Trans-Canada Highway in Quebec was opened in the Fall. It is located in the City of Kirkland at the Intersection of St. Charles Road and the Trans-Canada Highway just west of the Montreal International Airport. Forming part of a large shopping plaza, it is readily accessible to the heavy volume of traffic from the Trans-Canada Highway and never closes.

DIRECTORS

S. C. BACON
R. G. IVEY, Q.C., LL.D.
F. W. P. JONES
J. D. JUDGE
D. D. C. McGEACHY
R. W. MITCHELL, M.B.E., Q.C.
F. J. MOORE
J. A. TAYLOR
A. S. THOMPSON
JAMES G. THOMPSON
J. G. THOMPSON
D. G. WALLACE
LIEUT.-COL. D. B. WELDON, M.C.



OFFICERS

J. G. THOMPSON . . . *Chairman of the Board*
JAMES G. THOMPSON *President*
S. C. BACON . *Vice-President & General Manager*
R. W. MITCHELL . *Vice President & Secretary*
F. J. MOORE *Vice-President*
A. W. FARMILO *Vice-President*
C. C. SMITH *Treasurer*
General Sales Manager
P. B. EDMONSON
Manager Sales Region
F. A. VITA *Ontario West*
C. J. ENGEL *Ontario East*
J. J. LEHMAN *Quebec Division*
S. W. MANLEY *Agencies*

SUPERTEST PETROLEUM CORPORATION, LIMITED

Canada's All Canadian Company

EXPLORATION & PRODUCTION

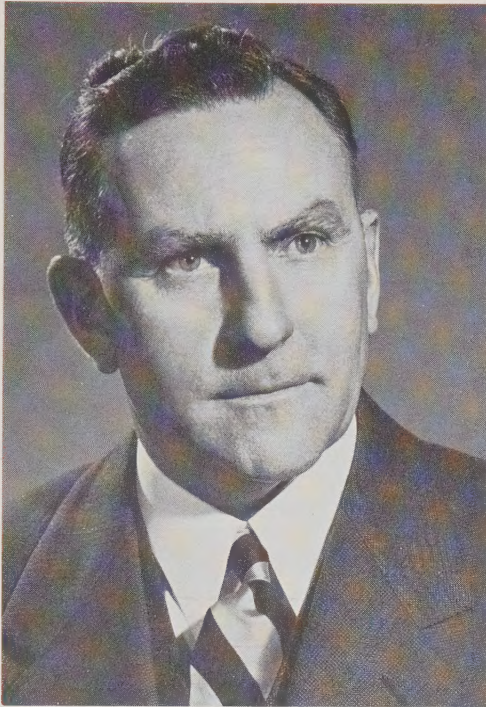
Supertest Investments & Petroleum Limited
A. W. FARMILO *Vice-President and*
General Manager, Calgary



Typical of the many new stations built during the year is this one with large service area and drive-ways in Brampton on the Corner of Kennedy Road and Rambler Drive.



This new station at the Corner of Plains Road and Waterdown Road in Burlington now offers motorists in this growing area the best of facilities.



J. GORDON THOMPSON
Chairman of the Board



JAMES G. THOMPSON
President

To the Shareholders:

On behalf of your Board of Directors it is a privilege to present this report of the operations of Supertest Petroleum Corporation, Limited for the year ended December 31, 1969. Included with the report are the financial statements, the notes relating thereto, and the certification of Riddell, Stead & Co., your auditors.

Despite the fact that the costs of labour, material and services have risen faster than the selling prices of the company's products, the past year has been one of increased activity and progress during which revenues rose from \$57,907,690 to \$60,248,598, setting new records in the demand for SUPERTEST products and higher production of crude oil and natural gas. Earnings from operations before extraordinary items amounted to \$2,233,937 as compared to \$2,473,896 in 1968.

The difference in net earnings is attributable to several factors, including changes made in Federal income tax regulations. The activation

of newly constructed production facilities in the West resulted in a substantially higher provision for depreciation, while revenue from these sources did not commence until toward the year-end. As expected, our expanded exploration programme was accompanied by increased non-productive expenses. Taxes, other than income taxes, paid by your company in 1969 amounted to \$5,035,000. The comparable figure in 1968 was \$4,869,000.

Dividends were paid during the year in accordance with the provisions of the 5% cumulative redeemable sinking fund preference shares, and at the rate of 50¢ per share on the ordinary shares and 5¢ per share on the common shares of the company.

Throughout the year SUPERTEST was again active in extending and modernizing its retail sales facilities as available resources permitted. Several important retail service-centre locations were developed on main arteries carrying high density traffic flows, and plans



This computer-based automatic loading system was installed at North York Terminal during the year. Authorized tank truck drivers now operate the facility unattended, and transactions are recorded by the time their loaded tankers reach the gate. Among its many advantages are; quicker turnaround of tankers, continuous and accurate recording of the quantities of liquids loaded, all safeguards and safety requirements incorporated, and completely parallel manual back-up in case it is required.

for a number of additional outlets of this type are presently under development. Of continuing concern in the establishment of retail gasoline facilities is the difficulty of obtaining a reasonable return on the dollars expended due to rapidly rising costs of building construction and equipment purchases, with selling prices of the company's products remaining relatively constant.

Continuing reviews of product movement and methods of delivery were carried out and resulted in a number of further changes being instituted to increase efficiency and improve service to company customers. The company's major pipeline terminal in Toronto was further automated by the installation of a computerized loading system. In addition to simplifying the work of drivers and agents, the terminal is now operated on a 24-hour 7-day week basis for the greater convenience of customers.

✓ In accordance with company policy the tank truck fleet was maintained in good order and kept up to date with the addition of several large trucks of the latest designs. Of interest is the fact that over the past five years the average capacity of the company's tank truck fleet has increased by 37%, with the largest units each capable of carrying approximately 12,000 gallons of product.

While the Federal Government continues to wrestle with the weakness in its oil policy and markets for Canadian crude oil, low-priced products arising from foreign sources continue to cross the National Energy Board line into areas west of the Ottawa Valley, in contravention of government guidelines, thereby keeping prices depressed and returns at unrealistically low levels. Resolution of the oil supply problem for Canada is necessary in the near future in order that the industry may take proper steps to ensure the best and most economical methods of supplying the petroleum needs of Canadians in the years ahead.

The growth of Canadian markets and recent demands for the export of crude oil and natural gas to the United States resulted in substantial gains in the production of Canadian hydrocarbons during 1969. SUPERTEST participated in this growth, and recorded increases in net production of crude oil and natural gas.

The commencement of deliveries from the Lac La Biche and Marten Hills areas, in the latter part of the year, resulted in a substantial increase in the company's production of natural gas. Crude oil production was also increased by additional development drilling where opportunities presented themselves, and through further work on pressure maintenance systems.

Increased exploration activities covered many areas of the Western Sedimentary Basin. In addition to carrying out considerable geological and geophysical work, SUPERTEST participated in the drilling of 38 exploratory wells, 18 of which were drilled at no cost to the company. The drilling programme resulted in 9 successful discoveries, and of these 7 encountered oil and 2 found gas.

Early in the year an oil discovery in the Senex area of Alberta in which your company has substantial holdings caused considerable excitement. However, subsequent drilling, mainly by others, suggests that this discovery is not as attractive as originally reported in the press.

Our first United States oil resulted from drilling carried out in the Williston Basin area of Montana, where your company holds varying interests in substantial land holdings.

After production for the year, the various exploration and development activities carried out resulted in a 20% increase in the company's reserves of crude oil. In addition, reserves of natural gas were increased to more than 170 billion cubic feet, and reserves of natural gas liquids and sulphur were higher.

The Arctic Islands and the Mackenzie Delta regions, where industry activity is on the increase, continue to be intriguing areas of Canada for oil and gas exploration. The recent discovery in the Mackenzie Delta confirms that commercial quantities of oil exist in Arctic coastal areas other than Alaska. Shows of natural gas which have been reported to date in the Arctic Islands also indicate in a tangible way the potential of this vast region. SUPERTEST is represented throughout these areas through varying interests in approximately one-half million acres in the Mackenzie Basin, and in excess of 3 million acres throughout a large area of the Arctic Islands.

The Federal Government's White Paper on tax reform has raised ever-increasing concern since its presentation to parliament last November. Hitherto Canada has adopted the incentive concept in its taxation policies and as a result large sums of capital have been attracted from home and abroad to assume the risks of developing Canada's natural resources and its industrial potential.

The present proposals are the product of the equity concept of taxation, emphasizing a redistribution of wealth as a goal of taxation. They appear to minimize the need for continued flow of capital investment essential to the

Aerial view of the Warburg water flood plant — 1969





*Completing water supply well for
Warburg Plant, Pembina Field.*



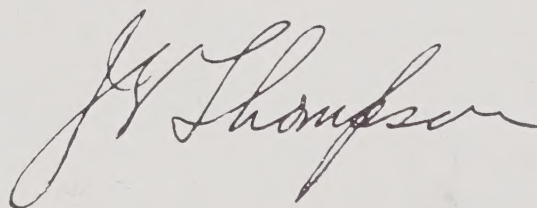
*Pipe line River crossing in the Lac
La Biche Field Area.*

development of the Canadian economy. The equity philosophy envisioned in the White Paper will tend to concentrate more money and power in the Central Government, and could thereby subject the individual and corporate enterprise to increasing control by the State.

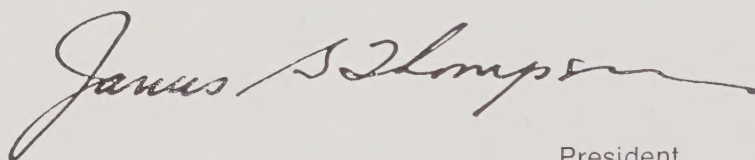
It is only through a growing and productive economy that further improvement will be made in the living standards of all Canadians. With Canada's vast area and small population, realization of this goal must come about in large measure through expansion of foreign trade. Taxation has a material effect on our ability to attract the capital necessary to finance growth. It is also a very important factor in the price of our commodities and, therefore, in our ability to trade abroad. Hence it suggests that in setting fiscal policy for the future, care must be taken lest it have the effect of restricting our economic development.

The outlook for the current year in Canada is difficult to assess since so much depends upon the attempts of Governments to control inflation. It is to be hoped that co-operation will be forthcoming from all segments of the economy in order that present restrictive measures may be relaxed and productivity again show meaningful gains. Notwithstanding, SUPERTEST looks forward to another year of challenge and accomplishment in 1970.

The substantial progress recorded by your company during the year under review, in the marketing of its products and in the search for oil and gas, has been made possible only by the efforts expended by employees, agents and dealers. On behalf of the shareholders, directors and officers we take pleasure in acknowledging the contributions which have been made towards the progress and welfare of your company.

A handwritten signature in dark ink, appearing to read "J. W. Thompson". The signature is fluid and cursive, with a long, sweeping underline.

Chairman of the Board

A handwritten signature in dark ink, appearing to read "James S. Thompson". The signature is fluid and cursive, with a long, sweeping underline.

President

SUPERTEST PETROLEUM CORPORATION, AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at December 31,

ASSETS

CURRENT ASSETS

	1969	1968
Cash	\$ 1,108,256	\$ 1,464,608
Short-term investments, at cost and approximate market value	2,565,000	1,000,000
Accounts receivable	9,392,768	8,583,184
Inventories of products and merchandise valued at the lower of cost and replacement cost	1,007,507	1,001,050
Special refundable tax	30,634	97,894
Prepaid expenses and supplies	270,156	282,659
	14,374,321	12,429,395

REFUNDABLE DEPOSITS WITH GOVERNMENTS

	86,859	105,392

INVESTMENTS

Mortgages and loans receivable	2,329,083	2,310,429
Investments, at cost	393,690	393,421
	2,722,773	2,703,850

SPECIAL REFUNDABLE TAX

	—	14,996

PROPERTY, PLANT AND EQUIPMENT, at cost (Note 1)

Less — Provision for depreciation, depletion and obsolescence	58,543,755	53,211,241
	25,483,714	23,624,972
	33,060,041	29,586,269

OTHER

Deferred charges	267,151	194,959
Commission on preference shares	55,824	57,248
Goodwill	—	100,000
	322,975	352,207

	\$50,566,969	\$45,192,109
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LIABILITIES

CURRENT LIABILITIES

	1969	1968
Accounts, payable and accrued	\$10,792,698	\$9,984,747
Sales and motor fuel taxes payable	1,912,850	1,717,884
Dividends payable	223,412	223,890
Income taxes payable	470,416	707,706
	40,000	—
	<u>39,376</u>	<u>12,634,227</u>

CORRECTION

Under heading "SOURCE OF FUNDS"		
Item "Special Refundable Fund"	30,000	—
should read "Special Refundable Tax"	<u>56,286</u>	<u>276,867</u>
	<u>16,286</u>	<u>276,867</u>

CAPITAL STOCK

Preference shares having a par value of \$100 each of which 15,949 shares are 5% cumulative redeemable sinking fund preference shares (Note 2)		
Authorized	27,949 shares	
Issued	15,949 shares	
Ordinary non-voting shares of no par value		
Authorized	1,375,000 shares	
Issued	688,780 shares	
Common shares of no par value		
Authorized	2,500,000 shares	
Issued	1,250,000 shares	
	<u>25,000</u>	<u>25,000</u>
	<u>6,699,650</u>	<u>6,740,350</u>

RESERVE FOR CONTINGENCIES

<u>265,000</u>	<u>265,000</u>
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EARNINGS RETAINED AND USED IN THE BUSINESS

<u>27,446,657</u>	<u>25,275,665</u>
<u>34,411,307</u>	<u>32,281,015</u>
<u>\$50,566,969</u>	<u>\$45,192,109</u>

SIGNED ON BEHALF OF THE BOARD

James G. Thompson, *Director*
R. W. Mitchell, *Director*

SUPERTEST PETROLEUM CORPORATION, AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at December 31,

ASSETS

CURRENT ASSETS

Cash

Short-term investments, at cost and approximate
market value

Accounts receivable

Inventories of products
the lower of cost a

Special refundable tax

Prepaid expenses and

1969

\$ 1,108,256

2,565,000

0 200 760

1968

\$ 1,464,608

1,000,000

2 522 184

REFUNDABLE DEPOSITS

INVESTMENTS

Mortgages and loans re

Investments, at cost

2,722,773

2,703,850

SPECIAL REFUNDABLE TAX

—

14,996

PROPERTY, PLANT AND EQUIPMENT, at cost (Note 1)

Less — Provision for depreciation, depletion and
obsolescence

58,543,755

53,211,241

25,483,714

23,624,972

33,060,041

29,586,269

OTHER

Deferred charges

Commission on preference shares

Goodwill

267,151

194,959

55,824

57,248

—

100,000

322,975

352,207

\$50,566,969

\$45,192,109

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LIABILITIES

CURRENT LIABILITIES

Accounts, payable and accrued	1969 \$10,792,698	1968 \$9,984,747
Sales and motor fuel taxes payable	1,912,850	1,717,884
Dividends payable	223,412	223,890
Income taxes payable	470,416	707,706
Current portion of term production loan	440,000	—
	<hr/> 13,839,376	<hr/> 12,634,227

LONG-TERM DEBT

Term production loan (secured under Section 82 of the Bank Act) less current portion included in current liabilities	2,060,000	—
Mortgages payable	256,286	276,867
	<hr/> 2,316,286	<hr/> 276,867

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Preference shares having a par value of \$100 each of which 15,949 shares are 5% cumulative redeemable sinking fund preference shares (Note 2)		
Authorized	27,949 shares	
Issued	15,949 shares	
Ordinary non-voting shares of no par value		
Authorized	1,375,000 shares	
Issued	688,780 shares	
Common shares of no par value		
Authorized	2,500,000 shares	
Issued	1,250,000 shares	
	<hr/> 6,699,650	<hr/> 6,740,350

RESERVE FOR CONTINGENCIES

265,000	265,000
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EARNINGS RETAINED AND USED IN THE BUSINESS

27,446,657	25,275,665
<hr/> 34,411,307	<hr/> 32,281,015
<hr/> \$50,566,969	<hr/> \$45,192,109

SIGNED ON BEHALF OF THE BOARD

James G. Thompson, *Director*

R. W. Mitchell, *Director*

SUPERTEST PETROLEUM CORPORATION, AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings for the year ended December 31, 1969

	1969	1968*
✓ REVENUE		
Gross operating revenue	\$59,782,339	\$57,523,355
Income from investments	466,259	384,335
	<u>✓ 60,248,598</u>	<u>57,907,690</u>
EARNINGS BEFORE PROVISION FOR DEPRECIATION AND DEPLETION	5,994,378	6,395,124
PROVISION FOR DEPRECIATION AND DEPLETION	2,746,054	2,385,298
EARNINGS BEFORE PROVISION FOR INCOME TAXES	3,248,324	4,009,826
PROVISION FOR INCOME TAXES (Note 4)	1,014,387	1,535,930
✓ EARNINGS BEFORE EXTRAORDINARY ITEMS	<u>✓ 2,233,937</u>	<u>2,473,896</u> ✓ <i>revised</i>
EXTRAORDINARY ITEMS		
Gain on disposals (Note 3)	524,286	533,801
Goodwill written off	(100,000)	(100,000)
NET INCOME	<u><u>\$ 2,658,223</u></u>	<u><u>\$ 2,907,697</u></u>

*Note 3

Consolidated Statement of Earnings Retained and Used in the Business for the year ended December 31, 1969

	1969	1968*
BALANCE AT BEGINNING OF YEAR	\$25,275,665	\$22,859,060
Net income	2,658,223	2,907,697
	<u>27,933,888</u>	<u>25,766,757</u>
DIVIDENDS DECLARED		
Preference shares	80,341	84,202
Ordinary shares	344,390	344,390
Common shares	62,500	62,500
	<u>487,231</u>	<u>491,092</u>
BALANCE AT END OF YEAR	<u><u>\$27,446,657</u></u>	<u><u>\$25,275,665</u></u>

*Note 3

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Consolidated Statement of Source and Application of Funds for the year ended December 31, 1969

SOURCE OF FUNDS	1969	1968
<i>From operations</i>		
Net earnings for the year before extraordinary items	\$ 2,233,937	\$ 2,473,896
Non-cash charge for Depreciation and depletion	2,746,054	2,385,298
	<hr/>	<hr/>
Proceeds from disposal of fixed assets	4,979,991	4,859,194
Decrease in investments	1,024,105	1,152,701
Special refundable fund	—	489,819
Increase in long-term debt	14,996	144,220
Other items (net)	2,039,419	—
	(52,235)	131,783
	<hr/>	<hr/>
	8,006,276	6,777,717
	<hr/>	<hr/>
APPLICATION OF FUNDS		
Acquisition of fixed assets	6,719,645	5,879,940
Dividends declared	487,231	491,092
Redemption of preference shares	40,700	91,000
Increase in investments	18,923	—
	<hr/>	<hr/>
	7,266,499	6,462,032
	<hr/>	<hr/>
INCREASE IN WORKING CAPITAL	\$ 739,777	\$ 315,685
	<hr/>	<hr/>

Notes to Consolidated Financial Statements December 31, 1969

1. POLICIES GOVERNING DEPRECIATION AND DEPLETION

Producing properties

The companies follow the practice of charging exploration expenses and the carrying costs applicable to non-producing properties to income as incurred. Property acquisition costs are capitalized and charged to income if the property is subsequently surrendered. The costs of productive wells are capitalized and the costs of non-productive wells are charged to income when the wells are determined to be dry. The cost of producing properties and producing development costs are amortized on a unit of production method based upon estimated recoverable reserves of oil and gas as determined by company engineers.

Other plant and equipment

Depreciation of physical assets is charged to earnings at unreduced rates allowed by the Income Tax Act which are considered adequate to extinguish the cost at the end of their estimated useful life.

- The 5% cumulative redeemable sinking fund preference shares are callable at \$103 each except when redeemed for sinking fund purposes when the price is \$100 per share.
- 1968 has been restated to bring \$533,801 gain on disposals into the statement of earnings which was previously shown as an addition to earnings retained and used in the business.

4. INCOME TAXES

The companies record in their accounts depreciation and other deductions in excess of the related amounts claimed for income tax purposes and no recognition is made in the accounts for the deferred income tax benefits.

With respect to drilling, exploration and lease acquisition costs, the companies have claimed amounts which, in the aggregate, exceed the related depletion provision and other expenses included in determining the net earnings and no provision has been made for deferred income taxes. While this procedure conforms with general practice in the oil and gas industry, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants under which the provision for income taxes would be based on the earnings reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported earnings, additional income taxes of \$476,346 (\$472,772 in 1968) would have been provided and net earnings for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately \$1,416,000 at December 31, 1969.

5. The company paid \$301,566 to directors and senior officers during the year.

AUDITORS' REPORT

To The Shareholders

Supertest Petroleum Corporation, Limited

We have examined the consolidated balance sheet of Supertest Petroleum Corporation, Limited and its subsidiary companies as at December 31, 1969 and the consolidated statements of earnings, earnings retained and used in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD & CO.
Chartered Accountants

London, Ontario
February 27, 1970

A canopy was included when this new station replaced an older building at the corner of Main Street and Bowman Street in Hamilton.



This Honeywell H 120 Computer went into service early in the year. A faster machine with greater capacity, it can provide all kinds of data and conveniently store records which allow us to service our growing number of customers more efficiently.



The efforts of experienced and loyal employees, dealers, and agents, have contributed substantially to the progress and welfare of the Company and are gratefully acknowledged.



Canada's All Canadian Company